

# OPEN MEETING



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## MEMORANDUM

Arizona Corporation Commission

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TO: THE COMMISSION

JUN 12 2001

AZ CORP COMMISSION  
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FROM: Utilities Division

DOCKETED BY	<i>[Signature]</i>
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DATE: June 11, 2001

RE: IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION - FILING FOR PRE-APPROVAL OF THE LOW INCOME ENERGY CONSERVATION PROGRAM (DOCKET NO. G-01551A-01-0463)

On June 1, 2001, Southwest Gas Corporation ("Southwest") filed for Commission approval of its Low Income Energy Conservation ("LIEC") program for the period of July 1, 2001, to June 30, 2004. As part of this filing, Southwest is requesting an increase in the cap for its annual demand side management ("DSM") spending and removal of a limitation on the percentage of DSM spending which may be used on low income DSM activities.

The LIEC program was initially pre-approved for one year by the Commission on June 19, 1998 (Decision No. 60976), at an annual funding level of \$236,000. Subsequently, the LIEC program was pre-approved for a two year period at an annual funding level of \$236,000 (Decision No. 61853, July 13, 1999). Southwest's current filing for pre-approval does not contemplate any major changes to the LIEC program mechanics.

Southwest's LIEC program is administered through the Arizona Department of Commerce - Energy Office ("Energy Office") as part of the Energy Office's broader low income weatherization activities. The Energy Office currently conducts a statewide low income weatherization program, as part of a broader low income assistance program, using federal and other low income funding sources. The Energy Office contracts with local community agencies to assist in the delivery of weatherization and other low income assistance activities. The LIEC program is treated as an additional source of funding within the existing Energy Office weatherization program. Piggybacking on the existing Energy Office program avoids the time and expense of creating and administering a separate Southwest Gas weatherization program.

The current program is available to Southwest customers whose annual income is less than 125 percent of federal poverty guidelines and customers over the age of 60 whose income is under 150 percent of federal poverty guidelines. The program is available for owner occupied and rental units. Typical measures installed under the LIEC program include caulking, insulation, weather-stripping, ductwork repairs, set back thermostats, storm windows, water heater wraps, and other measures. LIEC program costs are recovered through Southwest's DSM adjuster mechanism, as are costs for Southwest's other DSM programs. Up to 15 percent of the program funding in each region of the state may go to administrative costs (5 percent for the Energy Office and 10 percent for the community agencies).

The Commission's order establishing the LIEC requires that the LIEC program be cost-effective (Decision No. 60352, August 29, 1997). In past Commission actions (for example, Decision No. 58693, July 7, 1994), the Commission has applied the societal cost test to evaluate the cost-effectiveness of DSM programs. The Energy Office has divided the state into six regions and has identified measures that are cost-effective in each region. In cases where the cost-effectiveness of some measures is uncertain, a computerized audit is undertaken to rank the cost-effectiveness of these measures.

The Energy Office undertakes weatherization activities in a given home at the same time it addresses health and safety issues. In most cases, the Energy Office has funding from other sources to pay for health and safety improvements. However, in certain cases, these other funding sources may have been exhausted or are unavailable. In these cases, funds from the proposed LIEC program are used to address the health and safety needs. Generally, these health and safety measures are not cost-effective, because they result in little or no energy savings in most cases. Staff has expressed its concern in the past that inclusion of a large number of these health and safety measures in the LIEC program could threaten the overall cost-effectiveness of the program. Staff has worked with Southwest in recent years to allow a limited number of health and safety measures to be implemented while also maintaining the overall cost-effectiveness of the LIEC program. It appears that the limited number of such applications in previous years have not adversely impacted the program's overall cost-effectiveness.

Southwest currently has three DSM programs in Arizona: the LIEC program, the Seniors Helping Seniors ("Seniors") program, and the Energy Advantage Plus ("EA Plus") program. Currently, the LIEC program requires pre-approval of the Commission at Open Meeting while the Seniors and EA Plus programs require Staff pre-approval. Southwest has filed with Staff for extension of the pre-approval of the Seniors and EA Plus programs. Southwest's filing for pre-approval of the Seniors program contemplates phasing out the Seniors program in 2001. The Seniors program has traditionally been funded by Southwest and a coalition of other community organizations and municipal governments and has been administered by the Energy Office. Southwest has requested that the Seniors program be phased out because of a number of factors, including: (1) a number of program partners have recently withdrawn, (2) it has become more difficult to capture significant energy savings through the program, (3) customer participation has dropped recently, and (4) the Energy Office has revised its role in the program and will now require advanced conservation testing, which does not fit well with the structure of the Seniors program. In light of these factors, Staff recognizes that it would be difficult to continue the Seniors program and that the money spent on the Seniors program could probably achieve greater DSM benefits elsewhere. However, Staff is also concerned that the senior citizens served by the Seniors program should still have the opportunity to benefit from Southwest's DSM activities, particularly during this time of increasing energy prices. Most of the senior citizens served under the Seniors program are low income. Therefore, Staff felt that expansion of the LIEC program, as contemplated in Southwest's filing, would ensure that senior citizens continued to benefit from Southwest's DSM activities and probably would serve them better than continuation of an ineffectual Seniors program would.

THE COMMISSION

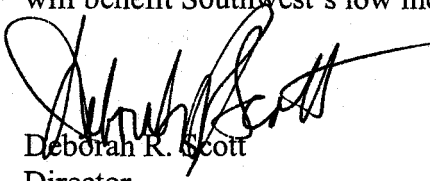
June 11, 2001

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Historically, the Seniors program has been funded at slightly more than \$100,000 annually. Southwest's request to extend the annual cap on DSM spending from \$1,125,000 to \$1,250,000 is intended to allow expansion of the LIEC program while maintaining the funding level of the EA Plus program.

Southwest has also requested that the requirement that Southwest "shall commit no more than 23.6 percent of its residential Demand Side Management programs to low-income customers" be removed. This change is necessary to fund the LIEC program at a level of \$350,000 annually, since this would represent 31.1 percent of the existing \$1,125,000 DSM spending cap and 28.0 percent of the proposed \$1,250,000 DSM spending cap.

Staff monitors the LIEC program through Southwest's semi-annual DSM reports as well as on-going discussions. Staff believes Southwest's LIEC proposal is a reasonable proposal that will benefit Southwest's low income customers. Staff recommends approval of the filing.



Deborah R. Scott  
Director  
Utilities Division

DRS:BGG:jbc/JMA

ORIGINATOR: Robert Gray

1                                   **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **WILLIAM A. MUNDELL**  
Chairman

3 **JIM IRVIN**  
Commissioner

4 **MARC SPITZER**  
Commissioner

5  
6 **IN THE MATTER OF THE APPLICATION OF        )**  
7 **SOUTHWEST GAS CORPORATION – FILING        )**  
8 **FOR PRE-APPROVAL OF THE LOW INCOME        )**  
9 **ENERGY CONSERVATION PROGRAM                )**

DOCKET NO. G-01551A-01-0463

DECISION NO. \_\_\_\_\_

ORDER

9 Open Meeting  
June 26 and 27, 2001  
10 Phoenix, Arizona

11 **BY THE COMMISSION:**

12                                   **FINDINGS OF FACT**

13           1.    Southwest Gas Corporation (“Southwest”) is engaged in providing natural gas within  
14 portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

15           2.    On June 1, 2001, Southwest filed for Commission approval of its Low Income Energy  
16 Conservation (“LIEC”) program for the period of July 1, 2001, to June 30, 2004. As part of this filing,  
17 Southwest is requesting an increase in the cap for its annual demand side management (“DSM”)   
18 spending and removal of a limitation on the percentage of DSM spending which may be used on low  
19 income DSM activities.

20           3.    The LIEC program was initially pre-approved for one year by the Commission on  
21 June 19, 1998 (Decision No. 60976), at an annual funding level of \$236,000. Subsequently, the LIEC  
22 program was pre-approved for a two year period at an annual funding level of \$236,000 (Decision No.  
23 61853, July 13, 1999).

24           4.    Southwest’s current filing for pre-approval does not contemplate any major changes to  
25 the LIEC program mechanics.

26           5.    Southwest’s LIEC program is administered through the Arizona Department of  
27 Commerce - Energy Office (“Energy Office”) as part of the Energy Office’s broader low income  
28 weatherization activities. The Energy Office currently conducts a statewide low income

1 weatherization program, as part of a broader low income assistance program, using federal and other  
2 low income funding sources. The Energy Office contracts with local community agencies to assist in  
3 the delivery of weatherization and other low income assistance activities.

4 6. The LIEC program is treated as an additional source of funding within the existing  
5 Energy Office weatherization program. Piggybacking on the existing Energy Office program avoids  
6 the time and expense of creating and administering a separate Southwest Gas weatherization program.

7 7. The current program is available to Southwest customers whose annual income is less  
8 than 125 percent of federal poverty guidelines and customers over the age of 60 whose income is under  
9 150 percent of federal poverty guidelines. The program is available for owner occupied and rental  
10 units.

11 8. Typical measures installed under the LIEC program include caulking, insulation,  
12 weather-stripping, ductwork repairs, set back thermostats, storm windows, water heater wraps, and  
13 other measures. LIEC program costs are recovered through Southwest's DSM adjuster mechanism, as  
14 are costs for Southwest's other DSM programs.

15 9. Up to 15 percent of the program funding in each region of the state may go to  
16 administrative costs (5 percent for the Energy Office and 10 percent for the community agencies).

17 10. The Commission's order establishing the LIEC requires that the LIEC program be cost-  
18 effective (Decision No. 60352, August 29, 1997). In past Commission actions (for example Decision  
19 No. 58693, July 7, 1994), the Commission has applied the societal cost test to evaluate the cost-  
20 effectiveness of DSM programs.

21 11. The Energy Office has divided the state into six regions and has identified measures that  
22 are cost-effective in each region. In cases where the cost-effectiveness of some measures is uncertain,  
23 a computerized audit is undertaken to rank the cost-effectiveness of these measures.

24 12. The Energy Office undertakes weatherization activities in a given home at the same time  
25 it addresses health and safety issues. In most cases, the Energy Office has funding from other sources  
26 to pay for health and safety improvements. However, in certain cases, these other funding sources may

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1 have been exhausted or are unavailable. In these cases, funds from the proposed LIEC program are  
2 used to address the health and safety needs. Generally, these health and safety measures are not cost-  
3 effective, because they result in little or no energy savings in most cases.

4 13. Staff has expressed its concern in the past that inclusion of a large number of these health  
5 and safety measures in the LIEC program could threaten the overall cost-effectiveness of the program.  
6 Staff has worked with Southwest in recent years to allow a limited number of health and safety  
7 measures to be implemented while also maintaining the overall cost-effectiveness of the LIEC  
8 program. It appears that the limited number of such applications in previous years have not adversely  
9 impacted the program's overall cost-effectiveness.

10 14. Southwest currently has three DSM programs in Arizona: the LIEC program, the Seniors  
11 Helping Seniors ("Seniors") program, and the Energy Advantage Plus ("EA Plus") program.

12 15. Currently, the LIEC program requires pre-approval of the Commission at Open Meeting  
13 while the Seniors and EA Plus programs require Staff pre-approval. Southwest has filed with Staff  
14 for extension of the pre-approval of the Seniors and EA Plus programs. Southwest's filing for pre-  
15 approval of the Seniors program contemplates phasing out the Seniors program in 2001.

16 16. The Seniors program has traditionally been funded by Southwest and a coalition of other  
17 community organizations and municipal governments and has been administered by the Energy Office.  
18 Southwest has requested that the Seniors program be phased out because of a number of factors,  
19 including: (1) a number of program partners have recently withdrawn, (2) it has become more difficult  
20 to capture significant energy savings through the program, (3) customer participation has dropped  
21 recently, and (4) the Energy Office has revised its role in the program and will now require advanced  
22 conservation testing, which does not fit well with the structure of the Seniors program.

23 17. In light of these factors, Staff recognizes that it would be difficult to continue the Seniors  
24 program and that the money spent on the Seniors program could probably achieve greater DSM  
25 benefits elsewhere. However, Staff is also concerned that the senior citizens served by the Seniors  
26 program should still have the opportunity to benefit from Southwest's DSM activities, particularly  
27 during this time of increasing energy prices.

28 ...

1 18. Most of the senior citizens served under the Seniors program are low income. Therefore,  
2 Staff felt that expansion of the LIEC program, as contemplated in Southwest's filing, would ensure  
3 that senior citizens continued to benefit from Southwest's DSM activities and probably would serve  
4 them better than continuation of an ineffectual Seniors program would.

5 19. Historically, the Seniors program has been funded at slightly more than \$100,000  
6 annually. Southwest's request to extend the annual cap on DSM spending from \$1,125,000 to  
7 \$1,250,000 is intended to allow expansion of the LIEC program while maintaining the funding level  
8 of the EA Plus program.

9 20. Southwest has also requested that the requirement that Southwest "shall commit no more  
10 than 23.6 percent of its residential Demand Side Management programs to low-income customers" be  
11 removed. This change is necessary to fund the LIEC program at a level of \$350,000 annually, since  
12 this would represent 31.1 percent of the existing \$1,125,000 DSM spending cap and 28.0 percent of  
13 the proposed \$1,250,000 DSM spending cap.

14 21. Staff monitors the LIEC program through Southwest's semi-annual DSM reports as well  
15 as on-going discussions.

16 22. Staff believes Southwest's LIEC proposal is a reasonable proposal that will benefit  
17 Southwest's low income customers.

18 23. Staff has recommended approval of the filing.

19 CONCLUSIONS OF LAW

20 1. Southwest is an Arizona public service corporation within the meaning of Article XV,  
21 Section 2, of the Arizona Constitution.

22 2. The Commission has jurisdiction over Southwest and over the subject matter of the  
23 application.

24 3. The Commission, having reviewed the application and Staff's Memorandum dated June  
25 11, 2001, concludes that it is in the public interest to approve the filing.

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ORDER

THEREFORE, IT IS ORDERED that the filing be and hereby is approved.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2001.

\_\_\_\_\_  
BRIAN C. McNEIL  
Executive Secretary

DISSENT: \_\_\_\_\_

DRS:BGG:jbc\JMA



1 SERVICE LIST FOR: Southwest Gas Corporation  
DOCKET NO. G-01551A-01-0463

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